U.S. Senate
Republican Policy
Committee

Larry E. Craig, Chairman
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Conference Report Highlights

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Highlights of Conference Report on IRS Reform (H.R. 2676)

IRS Reform Package Provides Taxpayer Protection *Plus* Tax Reduction

The conference report filed yesterday afternoon on H.R. 2676, the IRS reform bill, is a testament to Senate Republican persistence paying off for the American taxpayer. In the face of initial White House opposition and superficial Congressional Democrat reform attempts, Senate Republicans held out, and achieved not only IRS relief but tax relief as well for American taxpayers. **The conference report provides $12.9 billion over the next 10 years in real and lasting tax relief and real reform of an out-of-control taxpayer collection agency.**

The House today passed the conference report by a vote of 402-8. The Senate is expected to take it up upon return from the July 4th recess. [For more information on IRS reform, see RPC papers issued on 4/30, 5/1, 5/4, and 5/5 of this year.]

- Total taxpayer relief amounts to $12.9 billion over 1998-2007 and $4 billion over 1998-2002. This compares to the Senate-passed version of $18.8 billion over ten years and $6.3 billion over five years, and the House-passed version $2.9 billion over ten years and $0 over five years.

  - The taxpayer relief component from IRS reform provisions is $3.6 billion over 1998-2002 and $10.5 billion over 1998-2007.

  - Additional tax relief amounts to $458 million over 1998-2002 and $2.4 billion over 1998-2007.

- The conference report provides revenue offsets of $4.5 billion over 1998-2002 and $13.9 billion over 1998-2007.

  - The excess offset of $496 billion over 1998-2002 and $1.1 billion over 1998-2007 is set aside for future tax relief.

Highlights of the IRS Reform Provisions

- An Oversight Board will oversee the IRS's management and administration of the tax laws. Six of its nine members will be from the private sector and all Board members are subject to Senate confirmation. The conference agreement provides for a position on the Board for a full-time IRS employee or an employee representative. The President is given authority to waive the ethics conflict of interest rules for the employee representative under certain circumstances.

- A new post of Treasury Inspector General for tax administration is created for the purpose of enhancing IRS accountability and oversight.

- The Executive branch is prohibited from either requesting an audit or terminating an audit of any particular taxpayer.

- Electronic filing of tax returns is encouraged with a goal that 80 percent of all returns be electronically filed by 2007.

- One title is devoted to taxpayer protection and taxpayer rights. Prominent among its provisions are:
  - a shifting of the burden of proof in tax disputes from the taxpayer to the IRS, and increased penalties for IRS violations of these rights;
  - relief for innocent spouses from tax liabilities incurred by a spouse from whom they have been divorced, legally separated or living apart for at least 12 months;
  - taxpayer relief in certain interest and penalty situations; and
  - greater taxpayer protection in the audit process.

- In addition, the bill requires:
  - the IRS to collect and report annually to Congress on the allegations and cases of employee misconduct;
  - the preparation of a report on tax law complexity by both the IRS and Congress' Joint Committee on Taxation; and
  - a joint congressional committee to hold annually an oversight hearing of the IRS's progress in meeting the goals set by this legislation.

Tax Relief Provisions

The conference agreement contains additional tax relief of $458 million 1998-02 and $2.4 billion 1998-07.

- The bill eliminates the 18-month holding period that has been required to realize the lowest applicable rate (10 percent for taxpayers in the 15-percent tax bracket and 20 percent for all others) for capital gains. Thus, the bill reverses the unnecessarily complex provision that was inserted in last year's Taxpayer Relief Act at the Administration's insistence ($336 million 1998-02 and $2.1 billion 1998-07).

- Under certain conditions, employers may fully deduct the cost of business meals ($122 million 1998-02 and $316 million 1998-07).

- Future tax relief and simplification will be provided from the remaining offsets that are to be set aside ($496 million 1998-02 and $1.1 billion 1998-07).

Tax Offsets

- Of the total $4.5 billion 1998-02 and $13.9 billion 1998-07 in offsets, $8 billion over ten years comes from expanding the eligibility to Roth IRAs for seniors, who would be allowed to not count as income minimum distributions from IRAs in determining their eligibility for Roth IRAs.

- Other offsets include: overruling the Schmidt Baking decision regarding vacation and severance pay ($3.2 billion/5 years and $4.1 billion/10 years); freezing the grandfathered status of stapled or paired REITs ($20 million/5 years and $159 million/10 years); and making certain trade receivables ineligible for mark-to-market treatment ($1.3 billion/5 years and $1.7 billion/10 years).

Miscellaneous Provisions

- Most-Favored-Nation (MFN) trade status is redesignated "Normal Trade Relations."

- Interest accrual is prohibited during the extension period for the filing of tax returns for taxpayers in presidentially-declared disaster areas.

- Tax technical corrections to the Taxpayer Relief Act of 1997 are included, as are technical corrections to the Transportation Equity Act for the 21st Century (Transportation bill — "TEA 21").

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